

PAG PROGRAM FINAL REPORT

Executive Summary

In response to devastation that resulted from two earthquakes that occurred in El Salvador in early 2001, **USAID El Salvador** provided funding to FOMIR/DAI to design and launch a program that would provide grants to microenterprise owners affected by the earthquakes. The Productive Asset Grant Program was designed to help micro-entrepreneurs reestablish their income generating activity through the provision of one-time grants.

From October 2001 until the end of March 2002, the PAG program provided \$400 grants to 2,521 microentrepreneurs located in the five departments severely affected by the earthquake. These included Usulután, San Vicente, La Paz, La Libertad, and Cuscatlán.

The provision of in-kind grants by USAID through the PAG program has contributed significantly to the reactivation of micro enterprise activity, primarily in the areas of sales. The PAG supported microentrepreneurs had monthly sales of \$1.35 million prior to the earthquakes and by December 2002 their sales were expected to reach \$1.44 million. Sales fell drastically to \$552,800 immediately after the earthquakes. After the PAG effort started, sales nearly doubled to \$1.14 million in May 2002. Continued growth in sales should reach \$1.45 million by December 2002, which means that the PAG effort has restored economic growth of the microenterprises in less than two years. At the household level, the PAG microentrepreneurs will generate increased sales of \$2,868 over two years and result in a \$489 increase in income. The PAG helped to protect over 6,000 jobs within these microenterprises.

Background

El Salvador was severely affected by two earthquakes on January 13th and February 13th, 2001. The National Commission of Micro and Small Enterprise (CONAMYPE) estimates that the earthquakes have affected approximately 43,000 micro and small enterprises. Of these, an estimated 40,966 are micro-enterprises operating at the subsistence and simple accumulation levels. In a widespread natural disaster, micro-entrepreneurs are particularly vulnerable to loss of income and disruption of their ability to conduct business as they often have their place of business in their home. A loss of personal assets signifies a loss of business assets. CONAMYPE's studies have demonstrated that more than 60% of Salvadoran micro-entrepreneurs operate in their homes. In response, **USAID El Salvador** provided funding to FOMIR/DAI to design and launch a program that would provide grants to microenterprise owners affected by the earthquakes.

Program Description

The Productive Asset Grant Program was designed to help micro-entrepreneurs reestablish their income generating activity through the provision of one-time grants. The objective of the Productive Asset Grant program was to provide grants to small and micro entrepreneurs residing in affected areas in need of financial assistance to re-establish their livelihoods and their homes. Productive Asset Grants were used to:

- Partially or completely replace productive assets, for example sewing machines, ovens, production equipment, business furniture, and other equipment;
- Buy material to repair space in the home used to operate the business;
- Repair damage to business locations;
- Buy materials required to re-establish business activity.

As part of the design process, USAID and FOMIR anticipated using grants to pay for the costs associated with new or restructured loan. Examples included using grants to register housing title or mortgages, and pay for construction inspection services. During implementation of the program, the need to use grants to cover cost associated with obtaining titles and inspection services did not materialize. FOMIR/DAI met with three municipalities (in San Vicente, Tecoluca and Santiago de Maria) to discuss the potential of providing grants to microenterprises to purchase title to vendor stalls in local commercial markets. Results of the discussion led to the decision not to use vouchers for the purpose of purchasing title to retail space in commercial markets.

Target Beneficiaries

The PAG program was open to micro-entrepreneurs that lost economically productive assets including housing as a result of the earthquakes. To qualify for assistance, micro enterprise owners must have been operating economic activities that generated annual sales below \$20,571. Target beneficiaries of the program were micro enterprise owners living and operating in municipalities of Usulután, San Vicente, La Paz, La Libertad, and Cuscatlán.

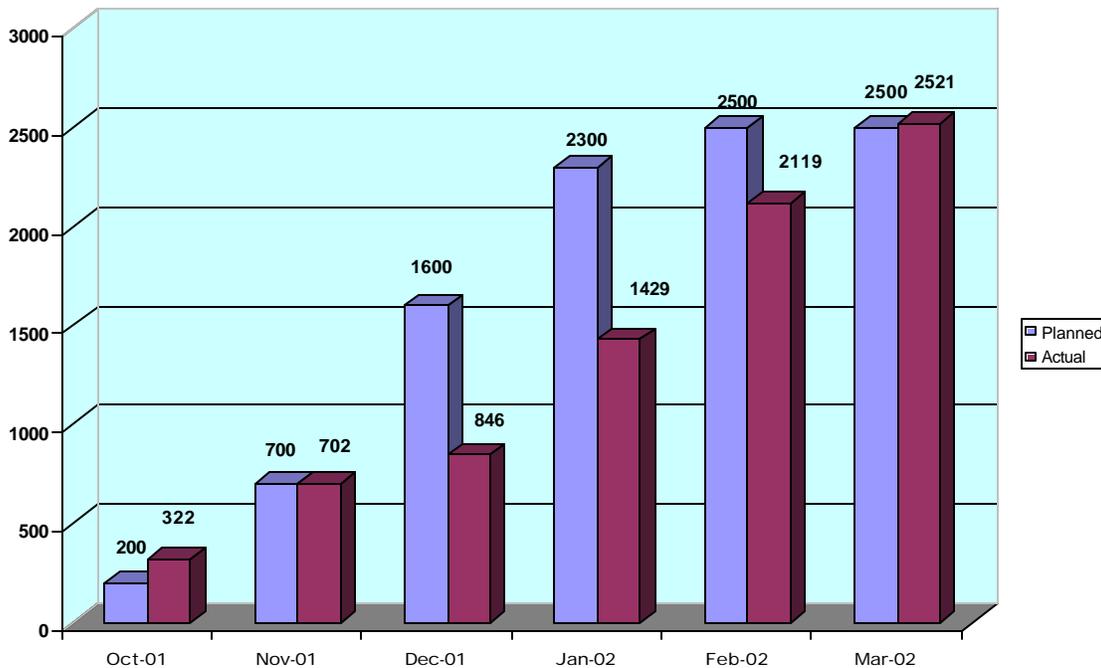
Program Administration

Funding for the program was approved in July 2001 and in August 2001, FOMIR/DAI hired a program coordinator, two field officers, a project accountant and a driver. A separate PAG office was established within the FOMIR office. DAI's Chief of Party provided overall management of the program.

Results

Beneficiary interviews and selection began in September 2001. In total, the Productive Assets Grant Program interviewed 2,813 potential beneficiaries and issued 2,521 vouchers to severely affected micro-entrepreneurs. From the 2,526 micro enterprise owners provided with vouchers, 5 beneficiaries never collected their assets. The final number of PAG program micro enterprise beneficiaries was 2,521. The chart below provided information on program targets and numbers of vouchers issued during the period October 2001 to the end of March 2002.

Planned vs Actual Grants Total



Each voucher provided beneficiaries with \$400 worth of productive assets, such as production equipment, production raw material, commercial inventory, animal husbandry, and construction materials. The table below lists the main groups of donated productive assets divided as a percentage of dollars spent and the total dollar amount spent. (IVA included).

Productive Asset Group	Percentage % of Dollars Spent	Dollars Spent \$
Construction Materials	28 %	319,624.07
Production Equipment	25 %	288,621.80
Production Raw Material	24 %	267,540.71
Commercial Inventory	22 %	245,479.29
Animal Husbandry	1 %	16,062.86
Total	100 %	1,137,328.73

The productive asset most solicited by the beneficiaries of the PAG Program was construction material for housing and business repairs, consistent with the fact that most micro-entrepreneurs operate their business in their homes. Examples of construction materials include blocks, iron, concrete, wood, roof materials, electric equipment, and nails. The second most often solicited productive asset was production equipment and machinery including sewing machines, cooking grills (planchas), ovens, refrigerators, grinders, outboard motors, and fishing equipment. Third, many beneficiaries have requested that vouchers be provided to purchase raw materials for their businesses. Examples of raw materials include basic grains and other materials for bakeries, materials for sewing, materials for agriculture, and food for animal husbandry. Many entrepreneurs requested commercial inventory including merchandise for small stores, basic grains, spices, sugar, medicines, clothes, and make-up. Finally, the least solicited productive asset was in the area of animal husbandry, grants to purchase cattle, chickens, and pigs.

Micro Enterprise Beneficiaries

Out of 2,521 micro enterprise beneficiaries, 1,916 or 76% were female. Only 605 male beneficiaries received a grant from the PAG Program. Most of the beneficiaries of the PAG Program had children under 18 or seniors that are economically dependent on them. On average, each beneficiary reported 3 dependents. In total, the PAG Program directly benefited 2,521 beneficiaries and an estimated 7,563 dependants. The description below provides insight into a PAG grant recipient.

Jeu Asael Vásquez is a baker who lives in Santiago Nonualco, La Paz, El Salvador. For the past year and a half he has been a regular client of the Centro de Apoyo a la Microempresa (CAM) or Center for the Support of Microfinance, a USAID grantee under the RFM activity. Through the village banking methodology, he had received three loans from the CAM and is considered a "AA" client. He built his own adobe oven and taught himself to make bread. He used the loan fund provided by CAM to buy flour and produce bread to sell in his village. In 2001, the earthquakes affected his business. His adobe stove was severely damaged. As a result he was only able to produce a few loaves of bread a day and his income declined. He started fixing the adobe stove but was afraid of working with it due to the constant aftershocks.

In October 2001, he received a \$400 USAID Productive Asset Grant voucher to buy a gas oven. When he received his new gas oven, he was able to immediately expand production and increased his sales by introducing a new type of bread (Pan Dulce) that he bakes with the new technology. He has repaired his old traditional adobe oven and he now reports that his bread making activity continues to develop. Today he distributes the bread directly to his customers using bicycles. Prior to receiving his first loan from CAM, Jeu was making approximately \$17 a day. Now he is making \$102. When asked what he does with the increased income, he says he is able to provide a better life for his six children

Small Business Beneficiaries

Small business vendors were secondary beneficiaries of the program. To increase the overall economic impact of the relief program, FOMIR/DAI purchased all the equipment and supplies from local small business vendors. The buy-local policy increased sales for local small business, provided additional employment opportunities, and increased the flow of financial resources in the communities severely affected by the earthquakes. The local vendors supplied and delivered the goods and services to the beneficiaries based on vouchers provided by FOMIR/DAI. Only those vendors legally registered and willing to provide Factura de Consumidor Final (Invoice listing IVA and company registration) participated in the program.

In total, 483 purchase orders were signed with 93 different vendors located in the most severely affected areas by the earthquakes. The total amount of the 483 purchase orders is \$992,266 excluding IVA. By buying local, FOMIR/DAI helped severely affected communities by stimulating supply and demand for goods and services.

Geographic Distribution of Grants

Beneficiaries by Department – Beneficiaries were distributed throughout the five target departments as follows:

- La Paz - 799 beneficiaries (32% of total),
- Cuscatlan – 644 beneficiaries (25% of total),
- San Vicente – 526 beneficiaries (21% of total),
- La Libertad – 418 beneficiaries (17% of total),
- Usulután with - 134 beneficiaries (5% of total).

Beneficiaries by Municipality –The PAG Program worked in 64 municipalities of the five most severely affected departments of El Salvador. The municipalities with most beneficiaries were:

- Zacatecoluca - 356 beneficiaries,
- San Vicente – 289 beneficiaries,
- Cojutepeque – 216 beneficiaries,
- Candelaria – 197 beneficiaries,
- San Luis la Herradura – 142 beneficiaries, and
- Colon – 111 beneficiaries.

The table provides a breakdown of the number of micro-enterprises provided with vouchers in each municipality. The MAP on the following page provides information per municipality.

Geographic Location of PAG Program Beneficiaries

SIG	Departamento	Municipio	Beneficiarios	Hombres	Mujeres
701	CUISCATLAN	CANDELIARIA	197	24	173
702		COJUTEPEQUE	216	47	169
703		EL CARMEN	43	5	38
704		EL ROSARIO	3	1	2
705		MONTE SAN JUAN	16	5	11
708		SAN CRISTOBAL	1	1	0
710		SAN PEDRO PERULIAPAN	85	19	66
711		SAN RAFAEL CEDROS	37	4	33
712		SAN RAMON	8	1	7
713		SANTA CRUZ ANALQUITO	2	0	2
714		SANTA CRUZ MICHAPA	32	9	23
502	LA LIBERTAD	CIUDAD ARCE	52	8	44
503		COLON	111	12	99
507		JAYAQUE	2	0	2
509		LA LIBERTAD	20	4	16
511		NUEVA SAN SALVADOR	32	3	29
510		NUEVO CUSCATLAN	1	1	0
512		QUEZALTEPEQUE	36	11	25
513		SACACOYO	28	3	25
514		SAN JOSE VILLANUEVA	9	1	8
515		SAN JUAN OPICO	49	10	39
519		TALNIQUE	3	1	2
521		TEPECOYO	4	2	2
522		ZARAGOZA	72	21	51
801	LA PAZ	CUYUITITAN	4	1	3
802		EL ROSARIO	27	4	23
805		OLOCUILTA	15	5	10
806		PARAISO DE OSORIO	2	1	1
808		SAN EMIGDIO	1	0	1
810		SAN JUAN NONUALCO	13	3	10
811		SAN JUAN TALPA	10	2	8
822		SAN LUIS LA HERRADURA	142	45	97
813		SAN LUIS TALPA	32	4	28
815		SAN PEDRO MASAHUAT	47	16	31
816		SAN PEDRO NONUALCO	16	9	7
817		SAN RAFAEL OBRAJUELO	29	4	25
818		SANTA MARIA OSTUMA	7	6	1
819		SANTIAGO NONUALCO	90	27	63
820		TAPALHUACA	8	0	8
821		ZACATECOLUCA	356	114	242
1001	SAN VICENTE	APASTEPEQUE	67	9	58
1002		GLIADALUPE	2	0	2
1003		SAN CAYETANO ISTEPEQUE	9	1	8
1006		SAN ESTEBAN CATARINA	5	4	1
1007		SAN ILDEFONSO	7	1	6
1008		SAN LORENZO	22	0	22
1009		SAN SEBASTIAN	14	9	5
1010		SAN VICENTE	289	66	223
1005		SANTO DOMINGO	40	6	34
1011		TECOLUCA	58	30	28
1012		TEPETITAN	6	0	6
1013		VERAPAZ	7	1	6
1102	USULUTAN	BERLIN	20	12	8
1103		CALIFORNIA	1	0	1
1104		CONCEPCION BATRES	6	1	5
1105		EL TRIUNFO	5	1	4
1106		EREGUAYQUIN	3	2	1
1108		JIJUILISCO	18	4	14
1109		JUCUAPA	5	4	1
1118		SANTA ELENA	14	6	8
1120		SANTA MARIA	1	0	1
1121		SANTIAGO DE MARIA	1	0	1
1122		TECAPAN	7	1	6
1123		USULUTAN	56	13	43
		Totals	2,521	605	1,916

Beneficiaries by Micro Finance Institution

A key design feature of the Productive Asset Grant program was to support clients of micro finance institutions (MFIs) serviced by the FOMIR/DAI project. As part of the implementation of the PAG program MFIs provided FOMIR a list of clients that met the beneficiary selection criteria for the program. MFIs were critical to the process of verifying that potential beneficiaries met the following requirements:

- Micro-entrepreneurs must have had a performing loan with FOMIR's MFI prior to the earthquake of February 13, 2001.
- Micro-entrepreneurs must have been in good standing (having no arrears or arrears of up to 30 days) before 1/31/01.
- Micro-entrepreneurs were severely affected by earthquake as defined by a house, business or business assets partially or totally destroyed by the earthquakes.
- Micro-entrepreneurs must have been commitment to reestablishing their business activity through 10% in-kind contribution. Payment of commission and fees for loans would qualify as contribution.

In addition to the FOMIR/DAI assisted MFIs, vouchers were offered to micro enterprise owners affiliated with other USAID related programs. In this regard, the PAG program provided vouchers to clients of CASART and ENLACE . The table below provides a breakdown of the number of clients per institution.

MFI	Vouchers / Grants	Percentage of Total
CAM	1026	41%
ASEI	391	16%
ENLACE	315	12%
CASART	257	10%
CALPIA	257	10%
ACCOVI	154	6%
FUSAI	83	3%
BANCO AGRICOLA	19	1%
FJND	19	1%
TOTAL	2526	100%

All of the participating MFIs commented that their clients benefited significantly from the program. MFIs also felt that the PAG program provided an incentive to the beneficiaries or clients to have a better credit relation with the MFIs in maintaining a good record of payments. In addition, the PAG program provided the working capital required by micro-entrepreneurs to reactivate their enterprise and the local and municipal economy. ENLACE and CAM both commented that the PAG program provided clients that were in arrears after the earthquake, with the resources required to generate sales and income and begin repayment on their loans.

Economic Impact of the PAG Program

In June, FOMIR/DAI contracted the services of Fausto Moisés Gómez Alfaro to conduct a program audit and impact survey. The objective for the program audit was to review the productive asset procurement process and determine whether or not the process was implemented consistently during implementation. The objective of the program impact survey was to assess the impact of the PAG program on program beneficiaries. The findings of the audit are described below:

- The PAG program audit confirmed that FOMIR/DAI and the MFI staff that participated in the implementation of the program consistently applied the predefined program policies and procedures. Further, the audit confirmed that the MFIs, through home visits, verified damages and losses reported by beneficiaries. The field survey verified that 98% of the beneficiaries maintain the donated assets in good state and are being used by the beneficiary to generate income. The remaining 2% are those beneficiaries that the survey team was unable to locate. Information received from neighbors suggested that the beneficiaries had left the country or sold the assets and no longer continued with their businesses.
- Based on the results from the interviews and the field investigation, plus the Cost-Benefit Analysis of the PAG Program, the evaluators concluded that in the universe of 93 suppliers and 2,521 beneficiaries, the objective of the PAG program was fulfilled by restoring the productive assets of the micro-entrepreneurs affected by the earthquakes of the year 2001. This impact was achieved primarily by the increase in sales and family income for micro enterprise owners, which contributed to an improvement in the quality of life and general well being of beneficiaries, after having lost part or all their source of income.

Impact on Sales

The earthquake devastated a substantial number of micro enterprises and small businesses. Some were destroyed completely, others partially. The universe of beneficiaries included 2,521 micro-enterprises and 93 small business owners.

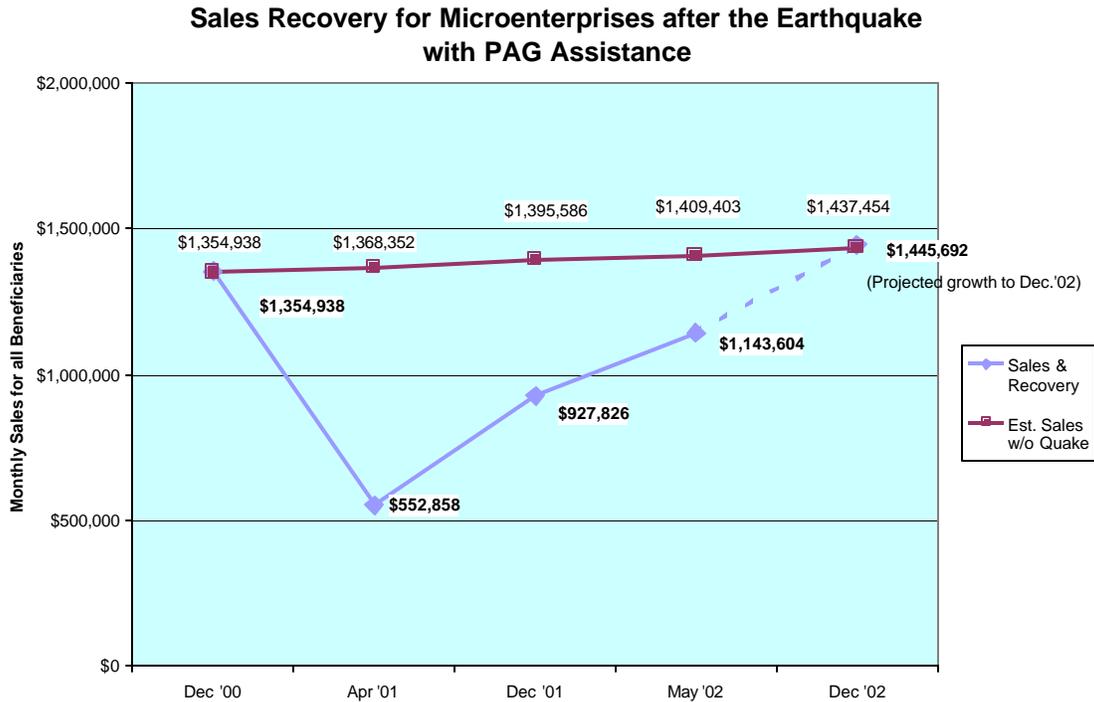
From interviews with 250 micro enterprises and 20 small business vendors, the survey team determined the following overall trends related to the universe of beneficiaries.

1. Sales before the earthquake were: \$1,354,938
2. Sales after the earthquake dropped by 60%: \$ 552,858
3. Sales reported by Micro enterprise owners in May '02, after PAG, were: \$1,143,603
4. Sales are projected by survey team for October 2002 are: \$1,359,381
5. Sales projected by survey team for December 2002 are: \$1,445,692
6. Sales without the interruption of the earthquake are projected to have been: \$1,437,545¹

The Survey Team concluded based on current and projected sales, that within 15 months after the start-up of the program, PAG beneficiaries will generate sales equal to the level of sales they would have achieved had the earthquakes not occurred.

¹ The annual average index of growth in sales corresponds to the annual rate of average growth in sales of the 22.8%, according to parameter estimated in studies made by FOMMI and Swisscontact in 1999. This growth is in monetary terms to current prices, thus in the present estimation of Sales, has been "indexed" the inflationary parameter of 3.08% annually (Index of Inflation), according to the annual average of a regressive series of 6 years, according to DYGESTYC and the Central Bank of El Salvador (BCR).

Impact Finding #1: The impact survey team concluded that the 2,521 Product Asset Grants of \$400 to microentrepreneurs resulted in an increase of sales of \$590,000 in May 2002 compared to immediately after the earthquakes. Continued recovery of the beneficiaries is estimated to be \$1,445,000 by December 2002, which will equal the estimated sales that these beneficiaries would have made if there had been no earthquake. Within 15 months, the PAG program will enable beneficiaries to achieve sales levels consistent with sales achieved prior to the earthquake. The table below charts the estimated monthly sales the 2521 beneficiaries would have achieved had the earthquakes not occurred and the monthly sales reported by beneficiaries after receiving PAG grants. Sales for December 2002 are estimated based on the average increase in sales during the previous six months.



The PAG Program impact survey also noted a short-term impact on sales for the small business vendors. Based on interviews with 20 of the vendors (22%) associated with the program, the survey team concluded that monthly sales, after the earthquake but before implementation of PAG, for the 93 vendors were \$1,581,516. As a result of PAG purchasing productive assets through local vendors, monthly sales increased by 51% to \$2,387,792. In May 2002, after implementation of PAG, vendors reported sales of \$1,677,196 or 6% higher than sales generated before PAG.

Impact Finding #2: The program strategy employed by PAG to procure productive assets from 93 local small businesses, resulted in increased short term sales of \$992,266 and contributed to growth in medium term sales.

Impact on Income

The Productive Asset Grant Program was designed to help micro-entrepreneurs reestablish their income generating activity through the provision of grants. Based on local micro-finance industry standards for net income, the survey team estimated that the micro enterprise owner retains 20% of sales to cover cost of salaries and as part of net income. Given the above-mentioned level of actual and projected sales, it is possible to estimate the income benefits derived by the beneficiaries.

The table below includes monthly sales and estimated income reported on a quarterly basis by beneficiaries. In April 2001, beneficiaries reported sales of \$552,858 or \$220 per beneficiary. Based on MFI standards, income per beneficiary would be 20% of \$552,858 or \$110,572. On average, beneficiaries were generating \$44 in income per month after the earthquake.

In May 2002, after receiving PAG assistance, micro enterprise owners reported sales of \$1,143,603 or \$454 per beneficiary. As a result, the survey team estimates that income increased from \$44 in April 2001 to \$91 in May 2002. The survey team projects that income will increase to \$115 per beneficiary by the end of December 2002 based on per beneficiary sales projected to be \$574. The table below charts the increase in sales and estimated income for the 2,521 beneficiaries.

Growth in Sales and Income	April 2001	December 2001	May 2002	September 2002	December 2002 Projected
Total Beneficiaries					
Sales	\$552,858	\$927,826	\$1,143,603	\$1,316,226	\$1,445,692
Estimated Net Income	\$110,572	\$185,565	\$228,721	\$263,245	\$289,138
Per Beneficiary					
Sales	\$220	\$369	\$455	\$524	\$576
Estimated Net Income	\$44	\$74	\$91	\$104	\$115

Based on the reported level of sales and estimated income, the survey team determined the net present value of the stream income benefits.

Impact Finding #3: Projection of the survey results found that, on average, each beneficiary will generate increased sales of \$2,868 over the two-year period after receiving the PAG grant. On average, these sales should generate a net present value of \$489 dollars in net income for each beneficiary. Total projected income among the 2,521 beneficiaries is \$1,234,550.

A similar analysis can be done to determine the increased income generated by the small business vendors supported by the PAG program.

Impact Finding #4: Based on increased sales of \$992,266 and given the assumption that 20% of sales are retained to pay salaries and as net income, the 93 small business vendors generated (one time) increased income of \$198,453 or \$2,134 per small business owner.

Impact on Protecting Employment

Employment in micro enterprise varies with level of sales. When sales decline, as was the case after the earthquake, employment declines. With respect to employment, the survey team found that, as a result of the reactivation of sales for micro-enterprises supported by the PAG program, jobs for the microenterprise owners and their employees were protected. Based on finding in Conamype and FOMIR studies, each microenterprise employs on average 2.5 employees. The survey team concluded that a total of 6,302 jobs were protected.

Impact Finding #5: The PAG program protected a total of 6,302 micro enterprise jobs. This would account for 15% of the total number of jobs affected by the earthquake. (Conamype estimates that 43,000 jobs were lost as a result of the earthquake).

Cost Benefit Analysis of the PAG Program

The cost associated with implementation of the PAG program can be summarized as \$992,266 distributed as vouchers for productive assets and \$96,345 in administrative expenses. Total cost of the program is thus \$1,088,611.

Direct economic benefits of the program are \$1,433,003. These benefits include \$1,234,550 of projected increased income for the 2,521 micro enterprise owners assisted and a one-time income gain of \$198,453 for the 93 small business vendors assisted by the project.

Impact Finding #6: Comparing the cost of the PAG program of \$1,088,611 with the benefits of the program \$1,433,003, the cost benefit ratio for the program is 1:1.32 and is judged to be an economically sound investment.

Impact on Well Being of Families

The survey team solicited information from beneficiaries on the well being of the family after receiving the grant. Sixty–seven percent of the 250 beneficiaries interviewed declared that they have improved their living conditions with the assistance of the PAG Program. Most beneficiaries stated that they are now able to covers the basic and elementary necessities of life. In contrast, the remaining 33%, which are micro-enterprises with 3 or more dependents, stated that they are able to satisfy the basic nutritional necessities.

Thirty percent of the beneficiaries declared that they have benefited from improvements and repairs to their houses and businesses, which allowed them to operate their business without deviating resources for such improvements. This has generated enough income to pay for future expenses of related to health, clothing and education.

Milagro del Carmen Guzman, 50 years old, with 4 children from Rosario de la Paz, has reestablished her house and business. With the donation of construction materials and a new metal stove she is back in business producing pupusas and tortillas. She reports that her sales have increased and with the profits she earned she has started a new mini store business. Without the donation it would have been almost impossible for her to start the business again.

Overall Benefits Associated with the PAG Program

As a result of the analysis of the interviews with beneficiaries and suppliers, the survey team summarized benefits associated with the PAG Program. The PAG program provided micro enterprise owners with the following the general economic benefits:

- Restoration of economic activity for 2,521 micro entrepreneurs.
- Increased sales for 93 small business vendors.
- Protection of employment opportunities for 6,302 people.
- Decreased in the levels of arrears on the part of MFIs.

Social benefits included the following:

- Increased sales generated the income necessary to have continued access to the basic services like potable water, energy, education, health, etc.
- Increased stability (protection) of employment led to increased stability in the household.
- Increased financial resources to repair of houses as shelter for families.

Conclusion

The provision of in-kind grants by USAID through the PAG program has contributed significantly to the reactivation of micro enterprise activity in the five departments severely affected by the earthquakes in early 2001. Grants totaling \$992,266 were provided to 2,521 microenterprise owners, strengthening 6,302 jobs and increasing income to families of \$1,234,550.

Further, the design and implementation of the program increased income to local small business vendors and led to strengthening of credit relationships between the microentrepreneur and local microfinance institutions.